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## **Indonesia**

### **Product Brief**

### **Beef Liver and Chicken Leg Quarter**

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#### **Report Highlights:**

**The market in Indonesia for prime cuts of beef is small, mainly limited to the higher class hotel and restaurant sector. However, a significant market exists for secondday cuts and offals - especially beef livers. For poultry products, the ban on chicken leg quarters remains in effect but represents a good market once the ban is lifted. Duck has good potential into the Bali tourism sector as duck is a traditional Balinese dish, while ATO Jakarta is working on developing a market for turkey cuts - namely thigh meat - and MDM through the Quality Sample Program.**

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Includes PSD changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Jakarta ATO [ID2], ID

## BEEF LIVER

### Executive Summary

Beef livers as a commodity item, other than beef, chicken, and soybean-based foods (e.g. *tofu* and *tempe*), are one of several main protein sources for at least 20 percent of the total Indonesian population of 210 million people. Beef livers are more affordable to the middle to lower classes than beef (muscle meat), which is normally 30 percent less expensive. The price for imported beef livers has been very competitive with local product. Furthermore, the domestic production of livers is dependent on the productivity of livestock farming, which experienced a major drop-off since the economic crisis, due to expensive imported feed costs. Thus, the prospect for beef liver imports remains high.

Though the total import volume of beef livers dropped significantly in both 1998 and 1999 due mainly to the Indonesian currency depreciation against the dollar, imports tripled to over 22,000 metric tons in 2000. (see table 1 and chart 1). Imports in 2001 is 13,187.451 tons and are projected to remain near that level in 2002. Currency fluctuation remains the key determinant in the level of beef level imports.

### Market Situation

Demand remains high: Interestingly, according to most importers and distributors the demand for beef livers remains steady, averaging over 10,000 tons annually (see table1), except in 1997-1998 during the economic and political turmoil. Total import rebounded 175 percent to 7,746 tons in 1999 compare to previous year at 4,437 tons, dominated by Australian products with 61 percent market share. The jump in year 2000 was apparently triggered by the Indonesian government ban on the importation of chicken parts and boosted by the lower price of U.S. beef livers.

Good price and substitute diet: Import from the United States in 2000 were exceptionally high, reaching 10,156 tons valued at \$6 million, which accounted for a 45 percent market share. According to the importers, the jump in U.S. exports was due to more competitive prices (USD 0.65/kg) and by the government import ban on chicken leg quarters. The effect of the ban led to higher prices for chicken meat. As a result, consumers turned to beef liver as substitute for their diets.

Right price: This market is very price sensitive. The market expects the ideal price of beef liver between the range of \$0.70-0.85/kg which was the price prior to crisis. Then, the price dropped to \$0.65/kg in 2000. Finally, it doubled to \$1.30 to \$1.50 per kg. For local product in year 2001, the price reached \$1.70 to \$2.00 per kg. Importers project the local price will remain high due to expensive feed costs (50 percent feed ingredients are imported).

**Table 1: Imported Beef Liver in Indonesia from Major Countries of Origin, 1996-2001\***

Country of Origin	1996	1997	1998	1999	2000	2001
	(Tons)	(Tons)	(Tons)	(Tons)	(Tons)	(Tons)
Australia	3,648	2,237	1,986	4,761	7,347	5,541,875
New Zealand	2,253	1,512	1,204	1,781	2,472	1,745,932
USA	4,450	2,869	1,208	1,180	10,156	5,537,644
Others	26	7	39	24	2,287**	362
<b>TOTAL</b>	<b>10,377</b>	<b>6,625</b>	<b>4,437</b>	<b>7,746</b>	<b>22,262</b>	<b>13,187.451</b>

Source: Center of Bureau Statistic, Jakarta

\*Data collected from January-July, 2001.

\*\*Ireland imported 1,957 tons while others only 300 tons

## **Consumption**

### **Main Consumers**

The demand for beef liver is year round and is becoming increasingly preferred over beef because of its more affordable price. The volume may increase up 50 percent during the months prior and during the Moslem's Idul-Fitri period. Beef liver is part of the special dish that all level of Indonesians have on their menu during the festive Ramadhan month.

The following table summarizes the main consumers of beef liver in the local market. The survey indicates that most U.S. beef liver (84 percent) goes to the wet markets, while 10 percent goes to food services such as industrial and off shore catering industries, and 6 percent to wholesalers and supermarkets.

**Table 2: The Main Consumers for US Beef Liver**

Consumers of Beef Liver	%	Volume (Tons/yr)
Wet markets	84	6,252
Food services, mainly industrial and off shore catering, industries	10	744
Wholesalers and Supermarket/Hypermarket	6	447

Source: U.S. ATO-Jakarta Survey Results, Oct-Nov, 2001.

Estimated volume based on 10 importers & distributors for US beef liver.

## **Preference**

A carton of beef livers may contain two or more items, each with individual package, while others may come without individual package. The local vendors, which mostly run the business in non-refrigerated retail operations, much prefer beef liver in a single package. It is definitely a

convenience for them to take out the product as necessary without worrying to wrap or re-wrap the product. They also prefer the smaller size beef liver because it fits the needs of average consumption. Notably, the consumers favor dark-red colored Australian beef liver as they presume it has a healthier look than the light colored ones (pale) (see table 3).

**Table 3: Consumer Preferences on Beef Liver**

Product	Price	Comment
US Brand- <i>Excel</i> * (Select)	Average	Smaller size, preferred by wet market vendors, suitable for non-refrigerated retail operation.
US Brand- <i>National</i> * (Select)	High	Best quality as it does not melt quickly (last the longest among other US brands). Contrary to its premium price, it is highly suitable for non-refrigerated retail operation for wet market vendors.
US Brand- <i>Packerland</i> * (2 <sup>nd</sup> Grade)	10% less than average	Smaller size, preferred by wet market vendors, suitable for non-refrigerated retail operation.
Australian & New Zealand*	20% less than average	Although known for its low price, the products turn slurry easily. But, their <b>dark-red</b> colored is preferred.

Source: US ATO-Jakarta Survey Results, Oct-Nov, 2001

\*A carton consist of two or three beef livers individually packaged.

## **Distribution**

### **Supply Chain**

There are at least ten major importers of beef liver in Indonesia, all based in Jakarta, in which six of them hold 80 percent market share of imported beef liver. Accordingly, U.S. beef livers enter the market directly to the Jakarta port in 40 ft. containers, while Australian beef livers come in 20 ft. containers. Most major importers have their own cold storage facilities and refrigerated container trucks that then distribute the products to their distributors, sub-distributors, wholesalers and supermarkets in major cities throughout Indonesia. The remaining 20 percent of small scale importers rent the facilities out including refrigerated trucks. In this case, most distributors, sub-distributors and wholesalers may pick up the products themselves at agreeable site or port.

Sub-distributors and wholesalers normally sell the products to small agents in each district of any big cities, which then go to sub-agents before reaching the wet market vendors and street food stalls. Each agent may sell to sub-agents and wet market vendors in their designated areas. Sub-agents may sell to other wet market vendors in the vicinity area. Other than end-consumers and street food stalls, wet market vendors also serve small local caterers (see appendix A).

### **Jakarta & Surabaya as Gateways**

Major importers with 3 to 14 branches use Jakarta as the only entry port. Products are then distributed from Jakarta as the gateway to serve the western region and to Surabaya, which serves as a hub for the eastern region. The western region reaches as far as Aceh and Medan in northern end of Sumatera, while the eastern region covers Lombok, Manado in north Sulawesi, and as far as the large Freeport mining operation in Papua. The largest distribution is still in the populous island of Java (approx. 114 million people) for wet markets and industrial catering industries which absorb

a combined 75 percent of total imports.

### Constraints

In general, the major constraint remains the distribution system in Indonesia with a lack of cold storage facilities, unreliable shipping agencies, and very poor transportation infrastructure.

### Third-Country Competition

Australia and New Zealand are the main competitors in Indonesia. Their close proximity to Indonesia give them an advantage in freight cost and shipping time (see appendix B). The market share for Australia and New Zealand is 55 percent while US share is 40 percent (see chart 1). There is reportedly a shortage of supply from Australian during the month of October and November. This is the time where Indonesian importers turn to the United States for supply.

### U.S. preferred over Australia

U.S. Select grade beef liver and the U.S. second grade are the preferred choice among importers compared to Australian products. According to the local industry, U.S. beef livers are well known for its longer shelf life compared to Australian, which reportedly turns slurry. Furthermore, some importers prefer U.S. beef liver over Australian because of consistent supplies and steady prices. Rapid fluctuations in Australian prices between ordering and shipping time reportedly creates uncertainty and anxiety among importers, while U.S. liver prices remain more stable, though the prices tend to be 20-30 percent higher. Comparative exchange rates with the U.S. dollar and currencies in Australia and New Zealand remain a major determinant in U.S. beef liver competitiveness in the Indonesian market.

## **Forecast and Future Development**

### Steady growth

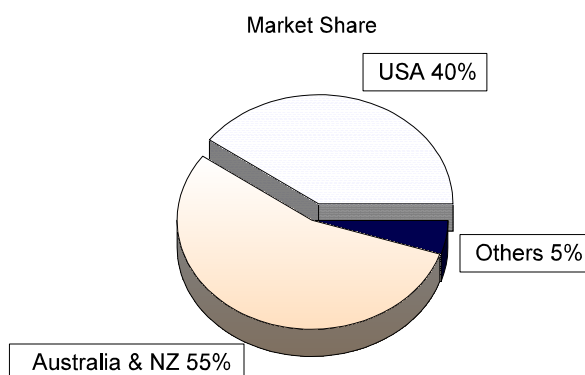
Although it is hard to predict the growth of imported beef liver due to exchange rate fluctuations and government restrictions on *halal*, some traders confidently expect at least 15 to 35 percent growth over the next five years.

### Other Opportunities

Other meat products which may have opportunity in this market are:

- Trimming and MDM beef for meatballs and sausages at approximately 40 tons per month in Jakarta alone
- Beef harts from Australia around 4 (20 ft) containers per month.
- Beef lung has a market, just like liver, for Indonesian traditional spicy menu and lung crackers/chips. (There was a report of US lungs came into this market via Canada).
- Beef tripes for wet markets, and seller of *soto babat dan daging* (Indonesian meat soup), and local chain restaurants at 1 (20ft) container per month

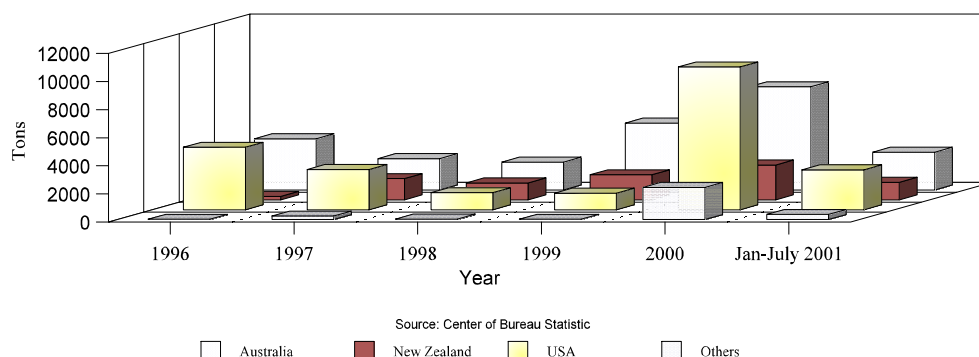
Chart 1: Beef Liver Import



### Government Policy

- In addition to a 5 percent import duty and 2.5 percent sales tax, the Indonesian government imposes a 10 percent Value Added Tax (VAT) on all imported products including beef liver as of January 1, 2001. The implementation of this tax is sporadic due to irregularities during the import clearance process.
- Retribution fees on all meat products coming into each province may increase the retail price outside of Jakarta. For instance, East Java Directorate General of Livestock applies retribution fee of Rp.75/kg for beef liver to importers or distributors.
- Director General of Livestock requires the following documentation for importing beef liver:
  - *Letter of Import Recommendation (SRI) specifying period of import, quantity and distribution area should be approved by the DG Livestock.*
  - *Health certificate from the country of origin, including the information on animal disease control system.*
  - *Halal certificate from any Islamic Center in the country of origin must accompany each beef liver shipment entering this country.*

Chart 1: Beef Liver Import



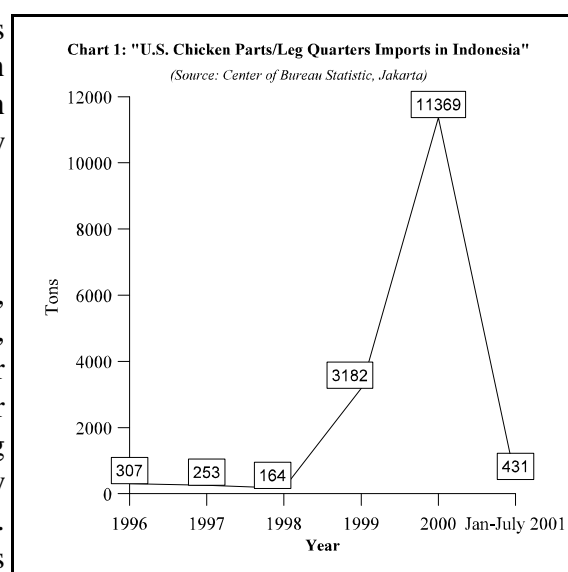
## CHICKEN LEG QUARTERS

## **Executive Summary**

Prior to 1999 the Directorate General of Livestock banned the importation of whole chicken into Indonesia but not chicken parts, which includes chicken leg quarters. That led to the entry of U.S. chicken leg quarters, totaling 3,182 tons in 1999 and 11,369 tons in 2000. However, the field survey result estimated the actual import volume of U.S. chicken leg quarters was over 18,000 tons in 2000.

On September 25, 2000 the DG Livestock banned the imports of chicken parts (e.g: chicken leg quarters, chicken breast, chicken wings, etc.) allowing only whole chickens to enter the market. The ministry's stated reasons for the ban was to protect domestic poultry farmers and to question the legitimacy of the *Halal* Certification process for imported chicken leg quarters. In fact, the relatively small volume of imported chicken leg quarters did not affect the local farmers, as imports accounted for less than one percent of total supply. Local production reached 682,000 tons in 1999, with 90 percent of it produced by the big seven local poultry integrators. Most of small local-traditional farmers who contributed 10 percent of local production previously went out of business during the crisis in 1997 due to their inability to buy imported poultry feed.

Despite the government ban on chicken leg quarter, the local industry is faced with high production costs, inadequate cold storage facilities, and a poor distribution system. This makes the prospect for imported chicken parts more promising. Chicken leg quarters still quietly enter the market, though at very limited volumes (reportedly 250-300 tons per year). If the leg quarter ban is lifted, there remains significant potential for U.S. leg quarters.



## **Market Situation**

The import value of chicken leg quarters jumped from \$1.99 million in 1999 with a volume of 3,707 tons to \$7.21 million in year 2000 with a volume of 12,641 tons (see table 1). The government ban on chicken leg quarter imports enacted in September 2000 effectively stopped U.S. exports, though small amounts continue to be imported through non-traditional means.

**Table 1: Imported U.S. Chicken Leg Quarter, 1999-2001**

Year	Volume (Tons)	Value (US \$)	Market Share (%)
1999	3,182	1,989,067	85
2000	11,369	7,205,065	89
Jan-July 2001*	431	273,537	95

Source: Center of Bureau Statistic, Jakarta

\*Data collected from January-July, 2001.

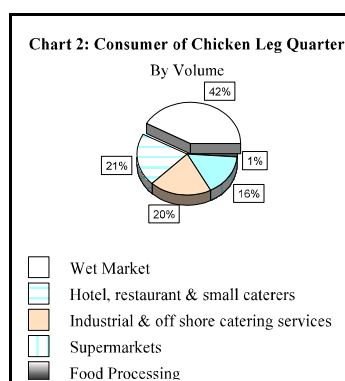
## Consumer

The following table indicates the main consumers of chicken leg quarters. As shown in the survey, the demand for chicken leg quarters is almost equal between the wet markets and the food service industry - which includes the industrial and offshore catering industries - at 42 percent and 41 percent respectively (see chart 2). In 2000, as the price of local chicken (broiler) reached \$1.00/kg, local chicken (native) at around \$1.50/kg, and beef (meat) \$2.50/kg, consumers turned to imported chicken leg quarters that was competitively priced at around \$0.80/kg. In addition, the leg quarters came in various sizes that allowed the consumers to choose. The smaller sizes are preferred by the wet market/supermarket customers while the larger size is suitable for catering/food processing industry as they can get more meat. Also, consumers health concerns regarding Foot and Mouth Disease in beef cattle played a role.

**Table 2: The Main Consumers for Chicken Leg Quarters**

Consumers of Chicken leg qtr	%	Volume (tons/year)
Wet markets (including street food stalls and pushed-carts)	42	7,693
Food service industries:	21	3,847
1. Hotel, restaurant & small catering companies.	20	3,663
2. Industrial & off shore catering industries	16	2,931
Supermarkets	1	183
Food processing industries		

Source: US ATO-Jakarta Survey Results, Oct-Nov, 2001



Indonesian Customers Preferences on U.S. Chicken Leg Quarters



- # **Small size** (200-250 g), less fat similar to local chicken broiler, best suitable for wet market vendors, as well as supermarkets.
- # **Large size** (300- 400 g). Preferred by wholesalers, food service industries, especially caterers, street food stalls and door-to-door pushed-carts.
- # **White skin** with less fat is more preferable than yellow skin (more fat).

### **Distribution**

The six major importers of chicken leg quarters in Indonesia accounted for a market share of 84 percent of total imported products are based in Jakarta. The distribution of chicken leg quarters begins in Jakarta port, arriving in 40 ft containers directly from the United States or perhaps China and Brazil. Most importers own cold storage facilities before distributing those products to distributors, sub-distributors, wholesalers and supermarkets in refrigerated container trucks throughout big cities in Indonesia. A limited few use transport of air, sea or train (see appendix A).

### **Government of Indonesia Issues**

Government policies obviously had a major affect on U.S. exports of leg quarters. According to most importers, the ban on the importation of chicken leg quarters utilizing questions of Halal certification or concern over the local industry was preposterous. According to these importers, the government showed inconsistency in making regulations by not thoroughly analyzing the true situation.

Imposing a 10 % of Value Added Tax (VAT) in addition to 5% import duty for all imported products caused problems to most companies, and imports of chicken leg quarters plummeted in April 2000. This was especially true when the government required each importer to retroactively withhold the VAT payment effective January 2001 even though the regulation was enacted in April 2001. In addition, retribution fees on all meat products coming into each province, regulated by local state officials, affected retail prices. For instance, in East Java, a fee of Rp50/kg was applied to chicken leg quarters to importers or distributors.

DG Livestock requested the following documentation for poultry imports:

- *Letter of Import Recommendation (SRI) specifying period of import, quantity, and distribution area which approved by the DG Livestock.*
- *Health certificate from the country of origin, including the information on animal disease control system.*
- *Halal certificate must accompany each poultry shipment entering this port. There are six Islamic Center in the U.S. approved by Indonesian Islamic Council (MUI-Majelis Ulama Indonesia) to issue the Halal Certificate: The Islamic Food and Nutrition Council of America (IFANCA), Islamic Food Authority Inc. USA, International Institute Of Islamic Thought c/q Marjac Abbatoir, Islamic Center of Omaha, Islamic Service of America, and Pan Islamic Nutrition Society of America c/q Edelweiss Incorporated.*

### **Future Development**

The future growth for chicken leg quarters is difficult to predict given the government ban and strict

*halal* requirement. Once lifted, other factors affecting imports include an unstable Indonesian currency, political stability, and comparative prices. However, some importers believe the market could quickly recover to over 18,000 tons per year. The figure reflects the volume of 18,300 tons in year 2000, as recorded by ATO-Jakarta survey.

There are, at minimum, seven large meat and poultry processors that require at least 100 tons of chicken leg quarters every month.. These processing industries produce chicken sausages, chicken-meatballs (*bakso*), and chicken-burger and require consistent supply. The advantage of imported chicken leg quarters for further processing is that it may not disturb the local markets for domestic products at retail level, which may lessen government concerns over in protecting local poultry farmers.

Other poultry products with market potential in Indonesia are: MDM chicken for sausages and *bakso*, breast bone with skin, boneless with skin, breast boneless, chicken meat fillet, and turkey skins and leg quarters for further processing.

## POST CONTACT AND FURTHER INFORMATION

The U.S. Agricultural Trade Office in Jakarta maintains up-to-date information covering food and agricultural import opportunities in Indonesia and would be pleased to assist in facilitating U.S. exports and entry to the Indonesia market. Questions or comments regarding this report should be directed to the U.S. ATO in Jakarta at the following address:

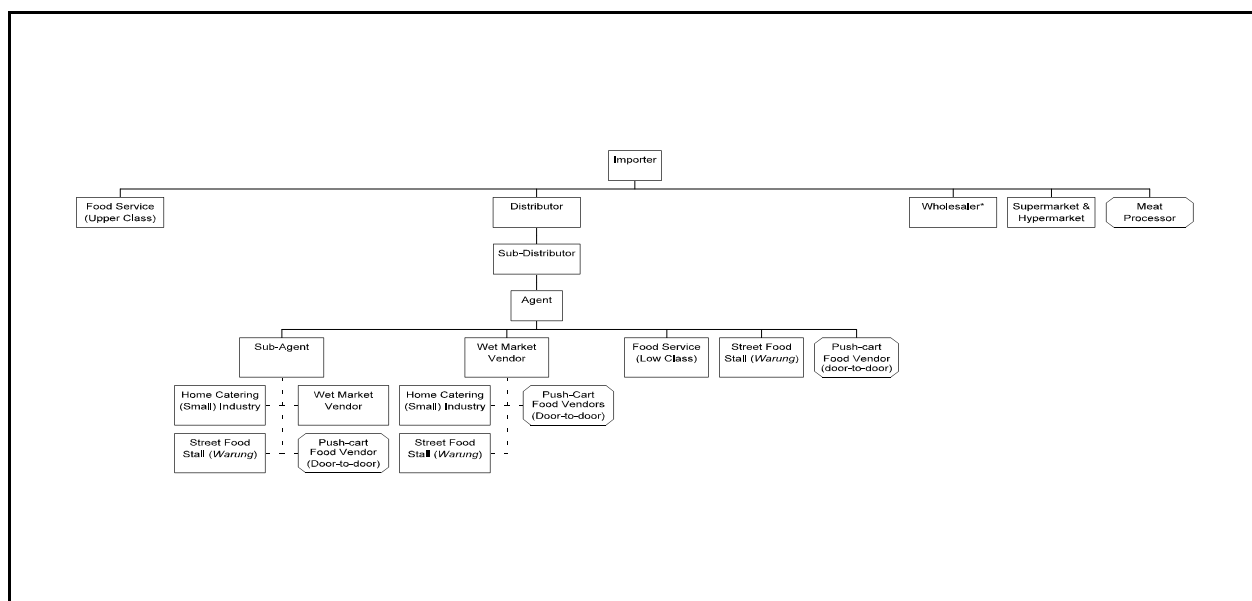
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For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service's Home Page: <http://www.fas.usda.gov>

## APPENDIX A

### Distribution Chart for Beef Liver and Chicken Leg Quarter in Indonesia.



#### Note:

- The octagonal shapes indicate additional distribution chain for chicken leg quarter
- \*Wholesaler may sometimes sell the products to agents, sub-agents and so on.

Source: U.S. ATO-Jakarta Field Survey, Oct-Nov, 2001

## APPENDIX B

### General Comments on U.S. Suppliers

Favorable	Unfavorable ( <i>Barriers to US Export</i> )
<ul style="list-style-type: none"><li>• <i>U.S. consolidators have been easier to work with in handling halal, other documentation, sourcing several products instead of direct import through big U.S. suppliers. Price can be competitive as well</i></li><li>• <i>Consistent supply, product size, and provide best quality products.</i></li></ul>	<ul style="list-style-type: none"><li>• <i>After the crisis, U.S. suppliers have not been very flexible in term of credit payments. No LC. None of GSM-program application requested by importers has ever been approved.</i></li><li>• <i>Price in general is more expensive compare to other countries and domestic products</i></li><li>• <i>Allowing minimum order of 40 ft containers only instead of 20 ft with at 2-3 weeks long shipping time can be very costly.</i></li><li>• <i>The respond or communication has not been as aggressively as other countries. Lack of good long term relationship. Not familiar with local system and Indonesian culture.</i></li></ul>

*Source: U.S. ATO-Jakarta Survey Results, Oct-Nov, 2001*